

HOUSE BILL NO. 72

INTRODUCED BY J. PETERSON

BY REQUEST OF THE DEPARTMENT OF REVENUE

A BILL FOR AN ACT ENTITLED: "AN ACT REVISING THE METHOD BY WHICH AGRICULTURAL LAND AND FOREST LAND ARE VALUED AND CLASSIFIED FOR PROPERTY TAX PURPOSES; PROVIDING AN APPROPRIATION TO THE DEPARTMENT OF REVENUE; AMENDING SECTIONS 15-6-133, 15-7-103, 15-7-201, AND 15-7-206, MCA; AND PROVIDING EFFECTIVE DATES AND A TRANSITION PROVISION."

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MONTANA:

Section 1. Section 15-6-133, MCA, is amended to read:

"15-6-133. Class three property -- description -- taxable percentage. (1) Class three property includes:

(a) agricultural land as defined in 15-7-202;

(b) nonproductive patented mining claims outside the limits of an incorporated city or town held by an owner for the ultimate purpose of developing the mineral interests on the property. For the purposes of this subsection (1)(b), the following provisions apply:

(i) The claim may not include any property that is used for residential purposes, recreational purposes as described in 70-16-301, or commercial purposes as defined in 15-1-101 or any property the surface of which is being used for other than mining purposes or has a separate and independent value for other purposes.

(ii) Improvements to the property that would not disqualify the parcel are taxed as otherwise provided in this title, including that portion of the land upon which the improvements are located and that is reasonably required for the use of the improvements.

(iii) Nonproductive patented mining claim property must be valued as if the land were devoted to agricultural grazing use.

(c) parcels of land of 20 acres or more but less than 160 acres under one ownership that are not eligible for valuation, assessment, and taxation as agricultural land under 15-7-202(1). The land may not be devoted to a commercial or industrial purpose. For the tax year beginning January 1, 2006, through the tax year ending December 31, 2008, the land is valued at the productive capacity value of grazing land, at the average grade

1 of grazing land. For tax years beginning after December 31, 2008, the land is valued at the statewide average
2 productive capacity value of grazing land.

3 (2) ~~Class~~ Subject to subsection (3), class three property is taxed at the taxable percentage rate
4 applicable to class four property, as provided in 15-6-134(2)(a).

5 (3) The taxable value of land described in subsection (1)(c) is ~~valued at the productive capacity value~~
6 ~~of grazing land, at the average grade of grazing land, and the taxable value is~~ computed by multiplying the value
7 by seven times the taxable rate for agricultural land."
8

9 **Section 2.** Section 15-7-103, MCA, is amended to read:

10 **"15-7-103. Classification and appraisal -- general and uniform methods.** (1) ~~It is the duty of the~~ The
11 department of revenue ~~to shall~~ implement the provisions of 15-7-101 through 15-7-103 by providing:

12 (a) for a general and uniform method of classifying lands in the state for the purpose of securing an
13 equitable and uniform basis of assessment of lands for taxation purposes;

14 (b) for a general and uniform method of appraising city and town lots;

15 (c) for a general and uniform method of appraising rural and urban improvements;

16 ~~(d) for a general and uniform method of appraising timberlands.~~

17 (2) All ~~lands~~ agricultural land and forest land must be classified according to their use or uses ~~and~~
18 ~~graded within each class~~ according to soil and productive capacity. In the classification work, use must be made
19 of soil surveys and maps and all other pertinent available information.

20 (3) All ~~lands~~ agricultural land and forest land must be classified by parcels or subdivisions not exceeding
21 1 section each, by the sections, fractional sections, or lots of all tracts of land that have been sectionized by the
22 United States government, or by metes and bounds, whichever yields a true description of the land.

23 (4) All agricultural ~~lands~~ land must be classified and appraised as agricultural ~~lands~~ land and all forest
24 land must be classified and appraised as forest land without regard to the best and highest value use of adjacent
25 or neighboring lands.

26 (5) In any periodic revaluation of taxable property completed under the provisions of 15-7-111, all
27 property classified in 15-6-134 must be appraised on the taxable portion of its market value in the same year.
28 The department shall publish a rule specifying the year used in the appraisal.

29 (6) All sewage disposal systems and domestic use water supply systems of all dwellings may not be
30 appraised, assessed, and taxed separately from the land, house, or other improvements in which they are

located. ~~In no event may the sewage disposal or domestic water supply systems be included twice by including them in the valuation and assessing them separately.~~"

Section 3. Section 15-7-201, MCA, is amended to read:

"15-7-201. Legislative intent -- value of agricultural property land. (1) Because the market value of many agricultural properties is based upon speculative purchases that do not reflect the productive capability of agricultural land, it is the legislative intent that bona fide agricultural properties be classified and assessed at a value that is exclusive of values attributed to urban influences or speculative purposes.

(2) Agricultural land must be classified according to its use, ~~which classifications include but are not limited to irrigated use, nonirrigated use, and~~ or uses. Agricultural land may be classified as either farm land or grazing ~~use~~ land.

(3) (a) Within each class, agricultural land must be ~~subclassified by production categories.~~ Production categories are determined from the productive capacity of the land valued by its productive capacity based on yield.

(b) The department shall determine productive capacity using the United States natural resource conservation service's soil surveys of Montana that take into account the physical and chemical properties of the soil and the influence of climate, slope, aspect, and elevation on the land.

(c) The department shall use the soil surveys as they exist at the time of valuation.

(4) ~~In computing the agricultural land valuation schedules to take effect on the date when values for each revaluation cycle takes effect pursuant to 15-7-111, the department of revenue shall determine the productive capacity value of all agricultural lands using the formula $V = I/R$ where:~~

(a) ~~V is the per-acre productive capacity value of agricultural land in each land use and production category class;~~

(b) ~~I is the per-acre net income of agricultural land in each land use and production category class and~~ is to be determined as provided in subsection (5); and

(c) ~~R is the capitalization rate and, unless the advisory committee recommends a different rate and the department adopts the recommended capitalization rate by rule, is equal to 6.4%. This capitalization rate must remain in effect until the next revaluation cycle.~~

(5) (a) Net income must be determined separately ~~in~~ for each ~~land use class~~ land use class based on ~~production categories~~ productive capacity.

(b) (i) Net income must be based on commodity price data, which may include grazing fees, crop and livestock share arrangements, and cost of production data, ~~and water cost data~~ for the base period using the best available data.

~~(i)(ii)~~ (ii) Commodity price data and cost of production data for the base period must be obtained from the Montana Agricultural Statistics, the Montana crop and livestock reporting service, and other sources of publicly available information if considered appropriate by the advisory committee.

~~(ii)(iii)~~ (iii) Crop share and livestock share arrangements are based on typical agricultural business practices and average landowner costs.

~~(iii)~~ Allowable water costs consist only of the per-acre labor costs, energy costs of irrigation, and, unless the advisory committee recommends otherwise and the department adopts the recommended cost by rule, a base water cost of \$5.50 for each acre of irrigated land. Total allowable water costs may not exceed \$40 for each acre of irrigated land. Labor and energy costs must be determined as follows:

——— (A) Labor costs are zero for pivot sprinkler irrigation systems; \$4.50 an acre for tow lines, side roll, and lateral sprinkler irrigation systems; and \$9 an acre for hand-moved and flood irrigation systems.

——— (B) Energy costs must be based on per-acre energy costs incurred in the energy cost base year, which is the calendar year immediately preceding the year specified by the department in 15-7-103(5). By July 1 of the year following the energy cost base year, an owner of irrigated land shall provide the department, on a form prescribed by the department, with energy costs incurred in that energy cost base year. In the event that no energy costs were incurred in the energy cost base year, the owner of irrigated land shall provide the department with energy costs from the most recent year available. The department shall adjust the most recent year's energy costs to reflect costs in the energy cost base year.

(c) (i) The base crop for valuation of irrigated farm land for which hay production is the more economical use of the land is alfalfa hay, adjusted to 80% of sales price;

~~(ii) and the~~ (ii) The base crop for valuation of nonirrigated farm land for which wheat production is the more economical use of the land is wheat.

(d) The base unit for valuation of grazing lands is animal unit months (AUM), defined as the average monthly requirement of pasture forage to support a 1,000-pound cow with a calf or its equivalent.

~~(d)(e)~~ (e) Unless the advisory committee recommends a different base period and the department adopts the recommended base period by rule, the base period used to determine net income must be the most recent 7 years for which data is available prior to the date the revaluation cycle ends. Unless the advisory committee

1 recommends a different averaging method and the department adopts the recommended averaging method by
2 rule, data referred to in subsection (5)(b) must be averaged, but the average must exclude the lowest and
3 highest yearly data in the period.

4 (6) The department shall compile data and develop valuation manuals adopted by rule to implement
5 the valuation method established by subsections (4) and (5).

6 (7) The governor shall appoint an advisory committee of persons knowledgeable in agriculture and
7 agricultural economics. The advisory committee shall include one member of the Montana state
8 university-Bozeman, college of agriculture, staff. The advisory committee shall:

9 (a) compile and review data required by subsections (4) and (5);

10 (b) recommend to the department any adjustments to data or to landowners' share percentages if
11 required by changes in government agricultural programs, market conditions, or prevailing agricultural practices;

12 (c) recommend appropriate base periods and averaging methods to the department;

13 (d) evaluate the appropriateness of the capitalization rate and recommend a rate to the department;

14 (e) verify for each class of land that the income determined in subsection (5) reasonably approximates
15 that which the average Montana farmer or rancher could have attained; and

16 (f) recommend agricultural land valuation schedules to the department. ~~With respect to irrigated land,~~
17 ~~the recommended value of irrigated land may not be below the value that the land would have if it were not~~
18 ~~irrigated."~~

19
20 **Section 4.** Section 15-7-206, MCA, is amended to read:

21 **"15-7-206. Improvements on agricultural land.** (1) In determining the total area of land actively
22 devoted to agricultural use, there is included the area of all land under barns, sheds, silos, cribs, greenhouses,
23 and like structures, lakes, dams, ponds, streams, irrigation ditches, and like facilities.

24 (2) One acre of land beneath agricultural improvements on agricultural land, as described in
25 15-7-202(1)(c)(ii), is valued at ~~the class with~~ the highest productive value ~~and production capacity of for~~
26 agricultural land."
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28 NEW SECTION. **Section 5. Appropriation.** There is appropriated a total of \$1.4 million from the
29 general fund to the department of revenue for fiscal years 2006 and 2007 to fund the determination of
30 agricultural productivity on agricultural land.

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2 NEW SECTION. **Section 6. Contingent voidness.** If an amount equal to \$1.4 million is not

3 appropriated to the department of revenue for fiscal years 2006 and 2007 for the determination of agricultural

4 productivity on agricultural land, then [this act] is void.

6 NEW SECTION. **Section 7. Effective dates.** Except as provided in subsections (1) through (3), [this
7 act] is effective January 1, 2009.

8 (1) [Sections 6, 8, and this section] are effective on passage and approval.

9 (2) [Section 5] is effective July 1, 2005.

10 (3) [Section 1] is effective January 1, 2006.

12 NEW SECTION. Section 8. Transition. Beginning on [the effective date of this section] the department
13 of revenue is authorized to develop procedures for revising the methods of valuing agriculture land and forest
14 land for property tax purposes as provided in 15-7-103, 15-7-201, and 15-7-206. The revaluation of agricultural
15 land and forest land must be made pursuant to 15-7-111.

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